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NATIONAL INTELLIGENCE DAILY CABLE

Wednesday October 13, 1976

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NATIONAL SECURITY INFORMATION

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National Intelligence Daily Cable for Wednesday, October 13, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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CHINA: No Public Announcement Yet

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[] A Chinese official has confirmed to Western newsmen that Hua Kuo-feng has been elevated to the posts of chairman of the party and of the military affairs commission, but there has been no public announcement of the move. There has also been no statement on the reported arrest of the four "leftist" members of the Politburo.

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[] The four are Chiang Ching, Mao's widow; party vice chairman Wang Hung-wen; fourth-ranked party leader Chang Chun-chiao; and party propagandist Yao Wen-yuan. An official's response of "no comment" to journalists' questions on the matter is tantamount to acknowledgment that the arrests have occurred. Announcements on these and other subjects are likely to be made only at the conclusion of the Central Committee plenum which is apparently now in session.

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[] One Western news report, citing "sources close to the Chinese government" says that over 30 persons have been arrested, including Mao's nephew, Mao Yuan-hsin, who apparently acted as head of Mao's personal secretariat in the final days of the chairman's life. This report claims that those arrested have been charged with "forging" Mao's will. There is no direct evidence supporting this claim, but it seems plausible.

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[] //Several Western embassies in Peking have heard that one of the charges against the leftists is that they "distorted" Mao's writings and had concocted a slogan, "act according to the instructions laid down," which has been widely used in Chinese propaganda since Mao's death.//

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[] The Central Committee is probably reviewing the charges against the leftists. The leading leftists are widely and deeply disliked, and if the record of the past ten years is reviewed, as seems likely, the list of "crimes" is certain to be a long one.

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[] The plenum may also be considering the case of Li Te-sheng, the one regional military commander who has unequivocally espoused leftist positions since the fall of Teng Hsiao-ping. Li, a member of the Politburo, appears to be in serious trouble, but he commands troops and his "case" is probably a delicate one.

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[redacted] The plenum is likely also to be considering the appointment of a reconstituted Politburo, depleted by the deaths of five members as well as by the recent purge and the earlier dismissal of Teng Hsiao-ping. [redacted]

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LEBANON: Situation Report

[redacted] Syrian forces based in Jazzin launched a two-pronged attack on Palestinian positions early yesterday in what appears to be the first phase of their offensive in southern Lebanon. The attacks--which came only hours after Arab League mediator Hasan Sabri al-Khuli announced that Palestinian and Syrian representatives had reached a new tentative cease-fire agreement--will seriously damage the credibility of President Sarkis, who had been primarily responsible for convening the settlement talks.

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[redacted] A Western journalist in the area reported late yesterday that most of the defenders of Rum had begun retreating and that Syrian forces were continuing to move west along the main road to the coast.

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[redacted] Syrian troops reportedly have also moved south to Hatura in what appears to be a drive toward the Palestinian redoubt at Nabatiyah. [redacted]

[redacted] Although Christian forces south of Marj Uyun have been shelling Palestinian positions since last week, there is no evidence yet that the Christians have assumed a major role in the renewed offensive. [redacted]

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[REDACTED]

Palestinian leaders believe Syria is determined to seek a military solution in the absence of a complete Palestinian capitulation. Yasir Arafat and other moderate Palestinians reportedly feel they submitted their "final" position during recent negotiations at Shaturah and that any further compromises would destroy the independence and the present leadership of the PLO.//

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[REDACTED]

[REDACTED] Palestinian leaders have little confidence they can hold their positions near the major coastal cities of Sidon, Tyre, and Beirut, and that they are resigned to the fall of their positions in Tripoli if the Syrians and Christians press their advantage there.//

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[REDACTED]

[REDACTED] Palestinian leaders concede that they could not hold out against a prolonged Syrian blockade of Beirut and Sidon, but are hoping that under such circumstances they would be rescued by international intervention.//

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[REDACTED] The Palestinians issued an urgent request yesterday for an emergency meeting of the Arab League foreign ministers and will presumably follow up with direct appeals to the Egyptians and Soviets for help. Arab League mediator al-Khuli left Lebanon for Damascus yesterday, probably on his way to Cairo.

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[REDACTED] Syria's actions have thoroughly discredited the League's mediation effort and could scuttle plans for a summit meeting now scheduled for October 18. The resumption of the Syrian offensive suggests that Sarkis and al-Khuli were misled, perhaps intentionally, by Syrian representatives to the negotiations over the weekend. Few Lebanese are likely to accept suggestions in the Syrian media that Syria's actions were taken in response to the weekend Palestinian attacks on several of Syria's embassies.

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USSR: Gribkov Appointment

25X1 [] The Soviet news agency Tass announced yesterday that Colonel General Anatoly Gribkov has been appointed First Deputy Commander in Chief and Chief of Staff of the Warsaw Pact forces, filling the position left vacant by the death of Army General Shtemenko last April. Judging from past experience, Gribkov will also serve as a First Deputy Chief of the General Staff of the Soviet Armed Forces.

[]

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25X1 [] //The delay in naming a replacement for Shtemenko suggests the Soviets had some difficulty finding an officer with the proper military qualifications who was also politically acceptable.

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25X1 [] The recent "Shield-76" exercise in Poland may have given Soviet Defense Minister Ustinov an opportunity to discuss the issue with his East European counterparts and perhaps settle Gribkov's nomination.

25X1 [] During World War II Gribkov served as a major in the corps of the General Staff officers who were sent to field units as representatives of the General Staff. In 1967, he was elected to the Supreme Soviet of Armenia. Since 1973, Gribkov has commanded the key Leningrad Military District, and in June, he directed the much publicized exercise "Sever"--the second Soviet exercise announced in compliance with the Helsinki accords.

25X1 [] During the 25th Party Congress earlier this year the 57-year-old Gribkov was elected a candidate member of the Central Committee. []

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CUBA: Anti-US Propaganda

25X1 [] //Cuba apparently intends to mount a major propaganda attack on the US over the crash of a Cuban airliner last week.//

25X1 [] Cuban media have highlighted a Miami-based exile organization's claim that it was responsible for the crash. The Cubans allege that the US has given explosives and other aid to counterrevolutionary organizations to attack Cuban personnel and installations.

25X1 [] Cuban Prime Minister Castro may take the opportunity of a mass rally in Havana today to accuse the US of direct involvement in exile attacks. In the past several months, Castro has threatened to renounce the 1973 US-Cuba Memorandum of Understanding on hijacking and to respond in kind to terrorist actions. []

EGYPT: Financial Crisis

25X1 [] //Egypt is trying to muster an additional \$1 billion in balance-of-payments support to prevent a substantial cutback in imports and consumption in the coming months.//

25X1 [] //Last year Arab cash aid covered about two thirds of Egypt's \$3 billion external financial gap. Only about \$1 billion in Arab aid has been disbursed so far this year, and unless more cash aid is received over the next two months Egypt may be forced to cut back drastically on imports of food, consumer durable goods, and industrial inputs.//

25X1 [] //Egypt has postponed payment on many of its foreign debts to free cash for needed imports. Last month, debt service arrears totaled \$700 million--equivalent to 70 percent of the balance-of-payments financing that Cairo is still seeking for 1976.//

25X1 [] //During the last several years Egypt's creditors have tolerated periodic delays in repayment on the assumption that Arab aid would be forthcoming. Now, with both Saudi Arabia

and Kuwait advertising their dissatisfaction with Egyptian financial practices, creditor patience is waning. US banks reportedly are reluctant to refinance even small, \$1 to \$10 million 180-day credits.//

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[REDACTED] //The newly established Gulf Organization for Development in Egypt may provide half the sum that is needed this year. The organization probably will guarantee \$250 million in Western bank loans and has offered an additional \$250 million in direct balance-of-payments support, although negotiations have bogged down.//

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[REDACTED] //Egypt also hopes Iran will provide \$250 million in loan guarantees. If all these funds materialize, the remaining shortfall could be financed with a rollover of short-term debt or continued deferment of repayments.//

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[REDACTED] //Egypt's balance-of-payments problems will continue into 1977 even if it obtains the credits it is seeking. Population growth and investment under the five-year plan probably will inflate imports, and exports will be hampered by capacity constraints and Israeli harassment of offshore development.

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[REDACTED]

EC-IRAN: Negotiations Back on Track

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[REDACTED] //French President Giscard's visit to Iran this week has cleared the way for early negotiations between the EC and Iran on a nonpreferential trade agreement. Giscard had objected to the EC Commission's proposals and refused to go along with resumption of the stalemated talks until he had discussed the issue personally with the Shah.//

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[REDACTED] //The Shah, taking advantage of his country's enhanced political and economic importance, had been seeking broad trade preferences similar to those the EC has granted to most Mediterranean countries. He may now be willing to settle for the more modest relationship the EC Commission has proposed, which is modeled on the EC-Canada cooperation agreement that came into force last week.//

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[] //The EC foreign ministers plan to take up the Commission's guidelines for the negotiations with Iran when they meet in Brussels on October 18 and 19. The Commission has suggested an agreement, of unlimited duration, which would:

--Enhance Iran's access to the EC market for certain industrial goods, including refined petroleum products, under the Community's generalized system of trade preferences for developing states.

--Grant most-favored-nation status to both parties.

--Promote industrial, scientific, and environmental cooperation.

--Encourage mutual investments and joint industrial ventures.

--Establish a joint commission to consider trade problems and guide the future evolution of the pact.//

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[] //The Community is also expected to ask for a firm commitment that Iran will continue to supply crude oil to its members, even in the event of renewed hostilities in the Middle East. Iran is the EC's second most important supplier after Saudi Arabia, accounting for 18 percent of the Community's crude oil imports.//

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[] //The Nine believe an agreement would also assure improved access to the Iranian market, which they expect will expand greatly over the next decade.//

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[] //France and Denmark strongly advocated acceptance of the Shah's initial demands for trade preferences on the grounds that the EC could not afford to antagonize an important oil supplier.//

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[] //Despite public expressions of support for Iran, most other EC members--led by the UK--have opposed preferential treatment for Iran in private. They cite Commission arguments that granting preferences would open the door to similar requests from other countries and violate commitments made to the US on the nonproliferation of special trading arrangements.//

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25X1 [] //Although the Commission now seems to have the general support of the Nine for its proposals, there are some outstanding difficulties. Some members--Italy and the Netherlands for example--are apprehensive that increased imports of refined petroleum products from Iran would further aggravate their present problem of excess refinery capacity. Others point to Iran's potentially high degree of competitiveness in some industrial sectors.//

25X1 [] //Some members are also concerned that the use of the Community's generalized system of preferences for Iran would dilute benefits going to the poorer developing states, and may constitute a misuse of the system by undermining the EC's flexibility to determine what preferences will be offered on a year-by-year basis.//

25X1 [] //Despite these problems, the Commission will probably get a green light to open negotiations before the end of the year. The talks could be protracted, particularly if the Shah continues to insist on special treatment for such products as petrochemicals, metals, shoes, and textiles. The Community is currently in no position, either economically or politically, to permit easier access for such highly competitive goods. []

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ITALY: Austerity Measures

25X1 [] //The austerity measures announced by Italian Prime Minister Andreotti on Friday probably will not have a significant impact on inflation--currently running at an annual rate of 17 percent. The government apparently believed, however, that stronger measures would have less chance of acceptance by the labor unions and by the Communist Party, whose cooperation in Parliament is essential. A temporary program was instituted on October 1 to brake the plunge of the lira and shore up business confidence.//

25X1 [] Most of the measures were discussed extensively in the press prior to the cabinet meeting last Friday, but some of the measures, including a tax that will raise the price of gasoline by 25 percent, came as a surprise.

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[] Apparently, Andreotti, under pressure from the Communists, had agreed earlier that measures such as these would go into effect only after consideration by Parliament. Although Andreotti said over the weekend that he would accept "improvements" by Parliament, the Prime Minister hinted that he would resign if the measures are watered down.

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[] He appears to be gambling that none of his critics will want to risk public disapproval for precipitating the fall of the government.

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[] The government actions, many of which will force up consumer prices even more, include:

--A 15-percent increase in fertilizer prices.

--Adjustment of motor vehicle taxes in favor of smaller cars.

--An immediate increase in postal and telegraph rates as well as a 10-percent increase in rail fares effective December 1.

--An increase in the withholding tax on dividend payments.

A decision on electricity and telephone rates was deferred to allow more time for consultations with the Communists and the unions.

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[] //In a weak attempt to curb the inflationary impact of rising wages, Italy also announced a two-year freeze on cost-of-living wage increases for upper income workers. Middle-income salary earners will have half of their cost-of-living adjustments frozen.//

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[] //This move will do little to slow the rise in labor costs, however, since it will only affect about 25 percent of the work force. Industrial wages probably will rise more than 20 percent this year mainly because they are linked to the consumer price index.//

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[] The Communist-dominated labor union is officially supporting most aspects of the program, with the notable exception of the proposed gasoline price increase. The Communists normally exercise predominant influence in the labor movement, but in this instance they are having trouble convincing their own rank and file and some of the non-Communist unions to go along.

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[] Rank-and-file discontent with the austerity measures has produced wildcat strikes in cities such as Turin, Bologna, and Milan and a call by militant metalworkers for a general strike. In response, Communist officials have been dispatched to key industrial centers to explain the necessity for austerity measures and the reasons behind the substantial Communist support for the program.

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[] Nevertheless, the federation that represents all of Italy's major unions may be forced against Communist wishes to call a general strike in order to placate worker discontent.

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BRAZIL-CHILE: Military Relations

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[REDACTED] The recent official visit of Brazilian Army Minister Frota to Chile reaffirmed the countries' traditionally close ties and may have laid the groundwork for an expansion of Brazil's military assistance and sales program.

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[REDACTED] Frota went to Santiago on the occasion of the 166th anniversary of Chilean independence, but there is good reason to believe that his private discussions with Chilean officials focused on an increase in the sale of Brazilian arms and military equipment to Chile. The Bank of Brazil last month reportedly approved a new \$40-million credit to Chile for military purchases.

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[REDACTED] Such arrangements are attractive to both countries for economic and strategic reasons. Brazil is trying to ease its balance-of-payments problems by promoting exports and is especially interested in establishing its fledgling armaments industry on a firm footing. Chile is aggressively seeking new foreign sources of arms now that US military assistance has ended.

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[REDACTED] A member of the Brazilian Foreign Ministry has told US embassy officials that Brazil prefers to restrict high-level exchanges with Chile to military channels, and, for the sake of international appearances, politely to stall on Chilean overtures for an exchange of presidential visits.

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SOUTH KOREA: Strong Economic Recovery

25X1 [] South Korea's export-led recovery is surpassing all earlier forecasts. Paced by a two-thirds rise in exports, real gross national product grew 17.4 percent in the first half of the year. Government officials now project a 14 percent growth in GNP for 1976, up from earlier estimates of 9 percent.

25X1 [] South Korean exports have taken advantage of the consumer-led recovery in the US and have successfully penetrated the lucrative Middle East market. Import growth, has been more moderate, partly due to prospects for a bumper grain harvest and Seoul's effective energy conservation program. As a result, South Korea's current-account deficit probably will fall to about \$0.5 billion this year from \$2 billion in both 1974 and 1975.

25X1 [] The pace of the recovery, while remaining brisk, is likely to slow somewhat during the remainder of the year. New export orders have already begun to slow. Trade barriers in importing countries and the recent weakening in the US economy also will moderate export growth. []

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